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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2016. As requested by the Executive Board in its decision 2016/13, this report includes: an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNDP framework of governance, risk management and control; a concise summary of work; and the criteria that support the opinion.

The report addresses: requests made by the Board in previous decisions, such as adherence to a statement of conformance with the internal audit standards; a view as to whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage; timely information on challenges in discharging oversight responsibilities; review of recruitment procedures; and presentation of the organizational risk assessment (all listed in decision 2015/13).

It includes: the financial losses identified by investigations, and the manner and amount of recovery (decision 2014/21); the titles of all internal audit reports issued during the year, and ratings received (decision 2013/24); significant issues related to the public disclosure of internal audit reports (decision 2012/18); lessons learned from joint audits and cases of fraud and action taken in cases of misconduct (decision 2011/22); and requests from any non-Member State for disclosure of reports pre-2012 (decision 2011/23).

The management response to this report is presented separately (decision 2006/13) and the annual report of the Audit and Evaluation Advisory Committee is appended to this report (DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit and Evaluation Advisory Committee.

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Appendix (available on the Executive Board website)

Annual report of the Audit and Evaluation Advisory Committee for 2016

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2016. The report also contains information in response to decisions of the Executive Board as noted herein.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

2. The Office of Audit and Investigations aims to provide UNDP with an effective system of independent and objective internal oversight to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of the Office are defined in the charter approved by the Administrator.

3. The *International Professional Practices Framework* of the Institute of Internal Auditors requires that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities, and must confirm to the Executive Board, at least annually, the organizational independence of the internal audit activity. The Office confirms its organizational independence. In 2016, it was free from interference in determining its audit scope, performing its work and communicating its results.

4. The Office has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys undertaken in 2016 showed that clients were satisfied with the conduct of audits. Periodic external quality assurance reviews are conducted every five years. The second external review for investigations finalized in 2015 resulted in an overall opinion that the Office adhered to its underlying policies, principles and guidelines, and conducted its investigative work in a professional and proficient manner. The third external review for internal audit is due to take place in 2017. The internal reviews performed in 2014-2015 and in 2016 showed continuous improvement since the last external review.

5. The Office continued to receive strong support from UNDP senior management. The Director participated in meetings of the expanded Organizational Performance Group (with other oversight office heads), which enabled discussions on long-outstanding recommendations and other audit-related matters of institutional significance with potential risk to UNDP. It continued to hold regular meetings with the Bureau for Management Services and regional bureaux to discuss key and recurring audit and investigation issues.

6. The Audit and Evaluation Advisory Committee, an external independent oversight body of UNDP, continued to provide advice to the Administrator on maximizing the effectiveness of UNDP internal audit and investigation functions. In 2016, the Committee reviewed the 2016 annual work plan of the Office and its implementation through quarterly progress reports. The Committee reviewed audit and investigation activities in the 2015 annual report presented to the Executive Board in 2016. In accordance with its terms of reference, the Committee held private sessions with the Director of the Office during each of its periodic meetings in 2016.

Coordination with external auditors

7. UNDP external auditors (United Nations Board of Auditors) continued to rely on audits of the Office of Audit and Investigations and its quality assurance review processes for third-party audits[1] of projects implemented by non-governmental organizations and national governments.

[1] "Third-party audits" refers to audits that are conducted neither by nor on behalf of the Office of Audit and Investigations. The audits of projects implemented by non-governmental organizations and national governments are conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

Basis for providing independent assurance to the Administrator

8. For purposes of providing assurance on governance, risk management and control, the annual work plan of the Office for 2016 covered the appropriate combination of business units, functions and activities at the headquarters, regional and country levels; directly implemented projects; and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Following its endorsement by the Audit and Evaluation Advisory Committee, the Administrator approved the 2016 annual work plan. During 2016, there were no challenges encountered in discharging oversight responsibilities that necessitated timely information to the Executive Board pursuant to decision 2015/13.

Organizational risk assessment for annual work planning (decision 2015/13)

9. The Office of Audit and Investigations formulated the 2016 audit plan after conducting a risk assessment of its auditable areas in UNDP as a whole. The Office undertook the planning process in a participative manner, holding a series of discussions with senior management and heads of concerned bureaux and being informed by the results from risk assessment models. It consulted the United Nations Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

10. The Office has been using a risk assessment methodology since 2006, refining and expanding it annually to cover the varied components of its audit universe. Separate risk assessment models were used to identify audits for country offices, directly implemented projects, Global Fund programmes and projects, and headquarters and regional business units. In late 2015, the Office developed an aggregate risk model covering all the components of the audit universe in preparation for the 2016 work plan.

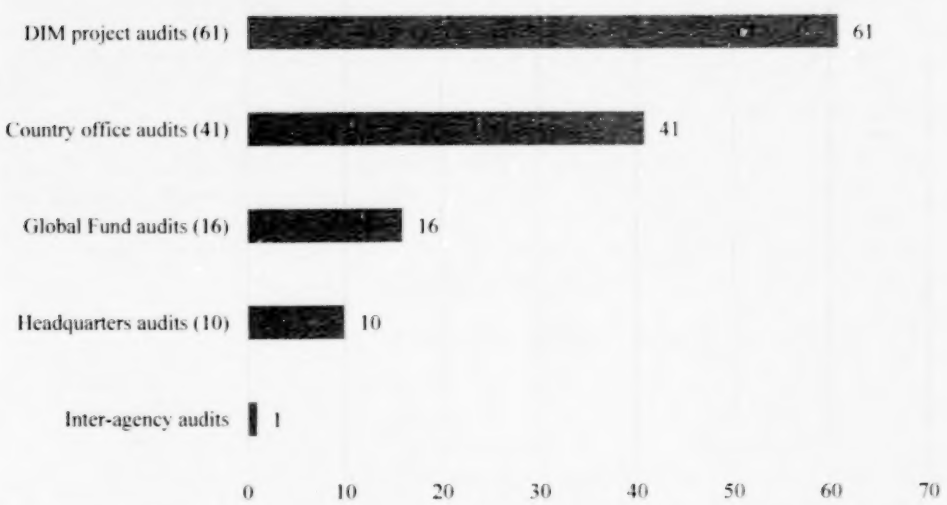
11. The risk assessment methodology covered the risk assessment process from risk identification to risk measurement and risk ranking. Both quantitative and qualitative risk indicators were used – classified as strategic, contextual, political, operational or financial – in line with the UNDP enterprise risk management categories of risks. The final risk ranking, which determines the frequency of audits, may be adjusted after consultation with management. Generally, entities ranked 'very high risk' are audited every two years, those ranked 'high risk' every three years, 'medium risk' every four years, and 'low risk' every five to six years.

Audit reports issued

12. In 2016, the Office issued 129 audit reports pertaining to UNDP: 10 headquarters audits; 41 country office audits; 16 Global Fund audits (including two consolidated reports); 61 audits of directly implemented projects; and one inter-agency audit (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all internal audit reports issued in 2016.

13. Considering that most of the audit reports issued in 2016 covered activities of UNDP offices during 2015, the audit results generally reflected the status of programmes and operations in 2015. The 118 country-level audits covered about $3.2 billion (68 per cent) of approximately $4.7 billion of UNDP field-level expenditures. An additional $1.7 billion in expenditures were covered by third-party audits of non-governmental organization and nationally implemented projects.

Figure 1. Number and type of audit reports issued in 2016



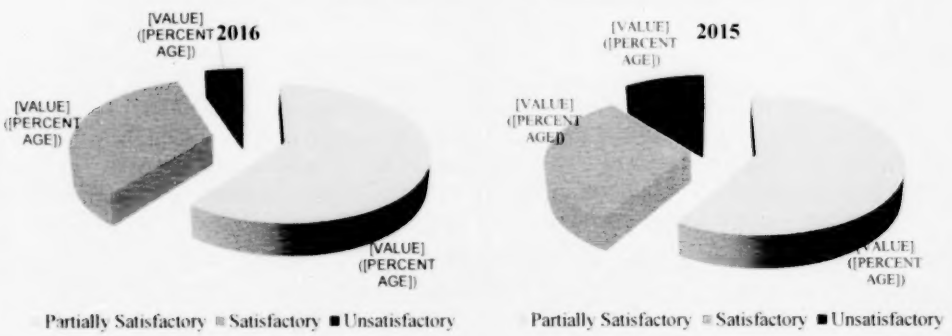
DIM = Directly implemented

Audit ratings

14. Based on audit results, the Office assigns an audit rating for the majority of its reports that reflects the adequacy and effectiveness of the governance, risk management and control processes at the audited-entity level. Exceptions include follow-up audits, solely financial audits of directly implemented projects, and consolidated reports on several audits.

15. Of the 129 reports, 71 did not contain an overall rating. Of the remaining 58 reports, 20 (35 per cent) had a 'satisfactory' rating; 35 (60 per cent) had a 'partially satisfactory' rating; and three (5 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2016 with that of 2015 shows a stable figure for 'satisfactory' ratings, a slight increase in 'partially satisfactory' ratings (by 2 per cent), and a decrease in 'unsatisfactory' ratings (by 6 per cent). The reports with 'unsatisfactory' ratings pertained to one headquarters process, one headquarters office, and one country office.

Figure 2. Comparison of audit ratings (2016 versus 2015)



16. There are two types of audits of directly implemented projects: (a) a financial audit, encompassing statements of project expenditure, fixed assets and cash; and (b) a combined financial audit and audit of internal control systems. Those that are solely financial, and are performed by audit firms, result in an audit opinion on expenditure, assets and, where applicable, cash-at-hand. These solely financial audits do not entail the use of the audit rating defined by the Office. Of the 61 such audits undertaken in 2016, 53 pertained to UNDP directly implemented projects and eight to the audit of UNCDF-related directly implemented projects. Out of the 53 audits, 49 were solely financial audits, for which the audit firms issued 42 unqualified and seven qualified opinions on the statements of project expenditures. The net financial misstatement reported for the projects with qualified opinions was $3.3 million (0.8 per cent of the total audited expenditure of $437.9 million). The 35 audits of statements on fixed assets resulted in 30 unqualified and four qualified opinions and one disclaimer of opinion. The net financial misstatement of those other-than-unqualified opinions was $474,729.

II. Disclosure of internal audit reports

17. In 2016, UNDP publicly disclosed 127 internal audit reports, six of which were partially redacted because they contained sensitive information (http://audit-public-disclosure.undp.org). There were 4,710 visits to the disclosure webpage, similar to the 4,844 visits in 2015.

18. In accordance with decision 2011/23, the Office hereby informs the Board that no request was received in 2016 from a non-Member State, a donor intergovernmental organization or the Global Fund for access to non-disclosed audit reports prior to 1 December 2012, when the disclosure policy for internal audit reports was implemented pursuant to decision 2012/8.

III. Staffing and budget

19. As of 31 December 2016, the Office had a total of 81 approved posts (including one temporary appointment post for the Social and Environmental Compliance Unit). Two posts were frozen until further notice. The Office thus had 79 active posts in 2016, compared with 80 in 2015. This figure excludes four posts funded by UN-Women and one Junior Professional Officer post.

Recruitment process (decision 2015/13)

20. Of the 79 active posts, 75 were encumbered and four were vacant. Recruitment for three of the four vacant posts had been completed by 31 December 2016; they were expected to be filled by the end of first quarter, 2017. Recruitment for the fourth vacant post will be initiated in 2017. In 2016, on a quarterly basis, the Office monitored its vacancy rate and the average number of months the staff positions had been vacant. It succeeded in having an overall vacancy rate of 5 per cent against a self-defined level of 7 per cent, and achieved an average rate of four months for a post to be encumbered, against an accepted period of six months.

Budget

21. In 2016, the Office had an overall approved budget of $18.3 million funded from core and other resources. It eventually received an allocation of $17.1 million (see figure 3). The difference between the budget approved and the budget received in 2016 of $1.2 million, or 6.5 per cent, represents an amount held back by UNDP management for unforeseen costs and risks. The amount held back did not have a significant impact on activities, as the actual amounts incurred for staff costs and operating expenses were lower than those budgeted.

22. In addition to the allocated $17.1 million, a total of $1.3 million in direct audit costs was charged to the respective budgets of each directly implemented project that was audited in 2016.

Figure 3. Resources in 2016

	(in $ millions)
Audit	9.7
Investigations	4.4
Management and support	1.8
Audit and Evaluation Advisory Committee	0.1
Total	**17.1**

Impact of budget constraints on audit mandate (decision 2015/13)

23. Overall, there were no significant challenges during the year that impacted the ability of the Office to discharge its oversight responsibilities.

IV. Significant internal audit results

A. Headquarters audits

24. The 10 headquarters audits pertained to two headquarters business units, six institutional functions, one programme and one project (information technology audit). The audit rated the United Nations Office for South-South Cooperation as 'unsatisfactory'. The report recommended improvements in the areas of organizational structure and strategic management, partnerships and resource mobilization, programme and project activities, and operations, mainly in the administration of human resources and travel. The audit also rated UNDP vendor management as 'unsatisfactory' and actions were recommended to address weaknesses in the vendor sanctions process, the decentralized vendor management system, inadequate guidance for post-qualification processes and weaknesses in the Atlas vendor management module. The information and communications technology audit rated the cloud computing project as 'satisfactory'; however, it recommended improved project management through adherence to the initially approved methodology for every project, and assurance that a specific risk assessment be conducted.

Performance audits

25. Three audits were conducted using a performance audit approach, focusing on the efficiency and effectiveness of systems and procedures.

26. The audit of the Regional Bureau for Arab States raised recommendations aimed at improving the oversight of the regional programme and projects, the recruitment of staff to fill vacant positions, and the quality of operational support provided to country offices. The audit of the UNDP financial sustainability and effectiveness exercise concluded that, overall, the exercise was conducted in line with relevant policies and requirements and was effective in reviewing the financial sustainability of country offices; it recommended the introduction of a new change management policy. The audit of UNDP results-based management assessed the relevant policies and practices as 'satisfactory', and recommended actions to clarify the guidance on the concept and use of 'theory of change' to improve the quality assessment process and increase the use of 'TRAC-2' as an incentive to promote evidence of good performance at the country office.

27. Altogether, the 10 headquarters audit reports resulted in 46 recommendations, of which 14 (30 per cent) were ranked 'high priority'.

B. Country office audits

28. The 41 country office audit reports issued in 2016 included 40 audits of general scope and one audit of a specific office function (financial management). The significant issues are grouped according to the audit area or sub-area in figure 4; those noted in at least five offices are considered 'recurrent'.

Figure 4. Recurrent country office audit issues
(Presented according to the sub-area with the most recurrent issues)

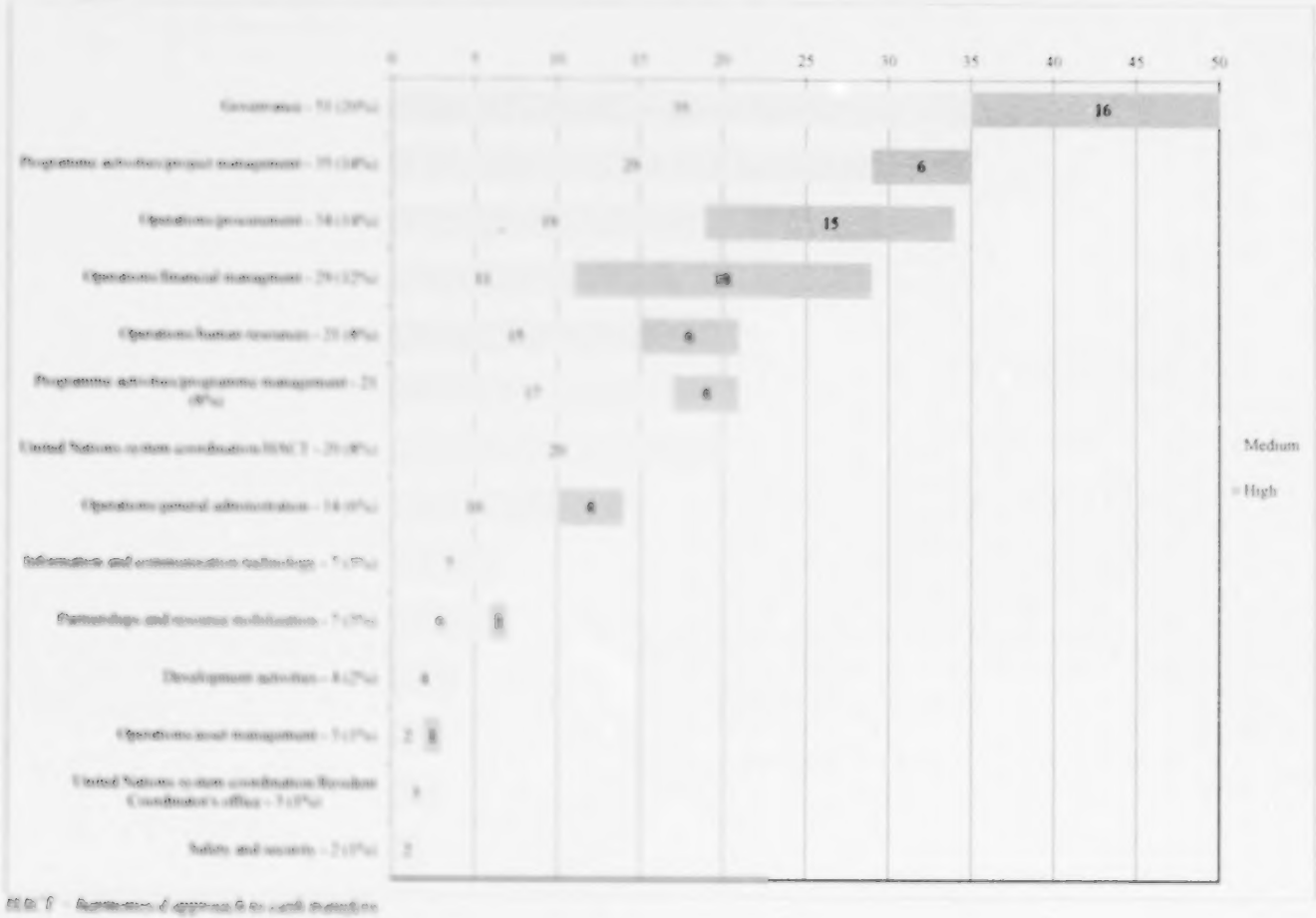
Audit area or sub-area	Recurrent audit issues
Governance and strategic management	Financial sustainability of the office at risk, mainly due to low programme delivery, declining extrabudgetary reserves, and high operational costs* (15 offices). Inadequate organizational structure, unclear roles and responsibilities, and conflicting and inconsistent Atlas profiles and roles* (9 offices).
Operations financial management	Inadequate controls over cash advances, including delayed liquidation of cash advances, delays in recovering costs for support services, and inadequate oversight of payments* (21 offices).
Operations procurement	Weaknesses in procurement management such as lack of transparency during evaluation of offers, lack of vendor checks prior to their creation, lack of justification for direct contracting, delays in procurement planning, non-submission to the appropriate procurement review committees, weak use of e-requisitions, and ineffective procurement oversight (19 offices). Inadequate management of individual contracts, including terms of payment, and deliverables and milestones that were not properly defined* (5 offices).
United Nations system coordination harmonized approach to cash transfers	Inadequate implementation of the harmonized approach to cash transfers, including macro- and micro- assessments not conducted and assurance plans not prepared* (20 offices).
Programme activities project management	Inadequate project implementation, including weak monitoring and evaluation, delays in preparing annual work plans related to projects, and unclear project baselines, indicators, and targets* (18 offices).
Programme activities programme management	Inadequate programme management, including absence of annual review of country programmes (10 offices). Lack of resource mobilization strategy (5 offices).
Operations human resources	Weaknesses in human resources management, including non-completion of mandatory trainings of staff and performance management and development processes, and inadequate controls in recruitment of personnel* (8 offices). Inadequate management of service contracts, such as engaging service contract holders to perform core functions and not complying with the *UNDP Service Contract User Guide* (6 offices).
Operations information and communications technology	Weaknesses in information and communications technology management, such as untested disaster and recovery plan and inadequate maintenance of back-up media (7 offices).
Operations general administration	Weaknesses in travel management, including late submission of travel requests and lack of supporting documents to travel claims or requests* (5 offices).

* *Issues also recurrent in 2015.*

29. Altogether, the above audits resulted in 251 recommendations, 71 (28 per cent) of which were rated 'high priority' (see figure 5).

Figure 9. Distribution and prioritization of country office audit recommendations in 2016 reports

(Total recommendations: 251)



C. Global Fund audits

30. Sixteen reports were issued in 2016, 14 of which related to grants managed by UNDP as principal recipient and two of which were consolidated reports. They covered the management of Global Fund grants in 10 country offices (four in Africa, four in the Arab States, one in Latin America and the Caribbean and one in the Asia and the Pacific region).

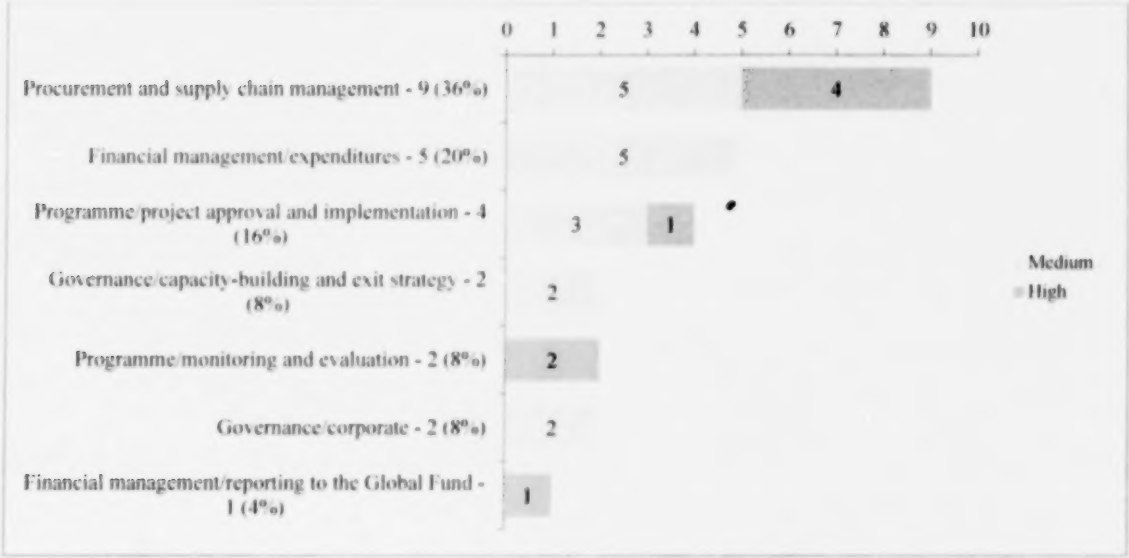
31. The 14 audit reports related to grants managed by UNDP as principal recipient contained 25 recommendations (see figure 6), the majority (66 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) financial management/expenditures and programme/project monitoring and evaluation processes. The significant issues are grouped according to the audit area in figure 7.

Figure 6. Recurrent Global Fund audit issues

Audit area/sub-area	Recurrent audit issues
Procurement and supply chain management	Weaknesses in inventory management, such as weak information system to track and monitor pharmaceutical products and their stock levels (4 offices). Lack of testing pharmaceutical products (2 offices).
Project management/ monitoring and evaluation	Gaps in project management, such as monitoring and evaluation processes, oversight and management of project funds (2 offices).

Figure 7. Distribution and prioritization of Global Fund audit recommendations in 2016 reports

(Total recommendations: 25)



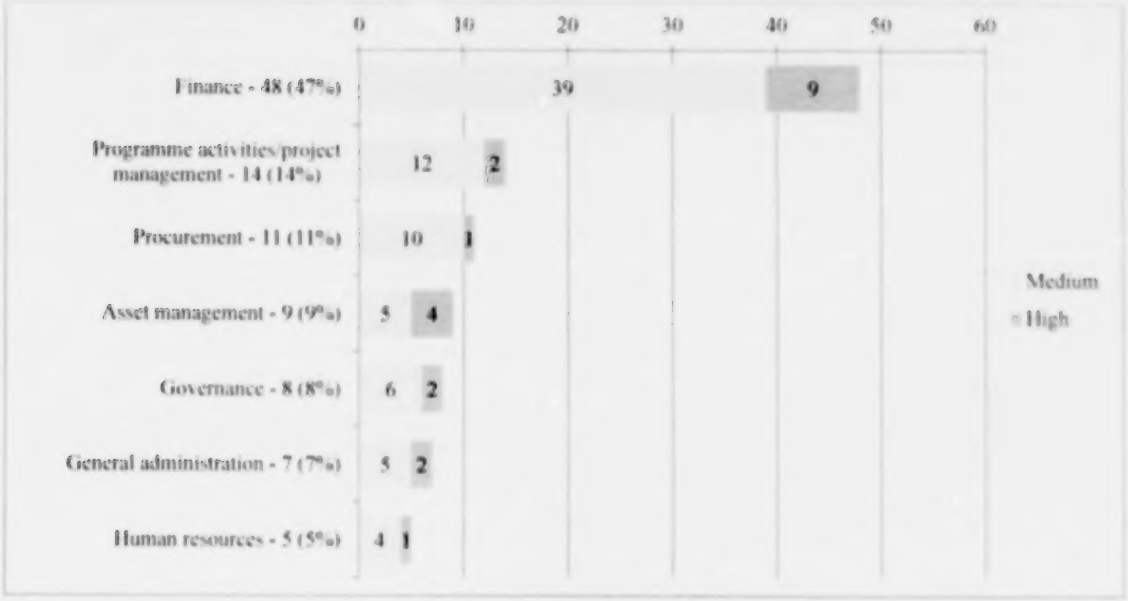
D. Project audits

32. Projects directly implemented by UNDP can be reviewed as part of the audit of an office or can be audited separately, especially if the project expenditure is significant for the office or presents high risks. In 2016, 61 directly implemented projects were audited separately, with a total audited expenditure amounting to $464.4 million. Out of these, 53 were directly implemented by UNDP and amounted to $437.9 million. The remaining eight projects were directly implemented by UNCDF.

33. Audits of directly implemented projects resulted in 102 recommendations (see figure 8), with a significant number of recommendations under the area of operations/financial management (47 per cent), such as inaccurate recording and a lack of supporting documents to justify accounting entries. Other areas with a notable number of recommendations were project management, procurement, asset management, and governance.

Figure 8. Distribution and prioritization of audit recommendations concerning directly implemented projects in 2016 reports

(Total recommendations: 102)



E. Inter-agency audits

34. In 2016, the Office of Audit and Investigations issued one inter-agency report as a result of joint and coordinated audit work among the internal audit services of several United Nations organizations (Office of Internal Oversight Services, UNFPA, and UNOPS).

35. The joint audit of the governance arrangement for the South Sudan Common Humanitarian Fund resulted in recommendations aiming to clarify the role of the Fund Advisory Board in the reserve allocation process; to improve the sharing of capacity assessment reports and project audit reports in the joint Office for the Coordination of Humanitarian Affairs-UNDP technical secretariat; and to complete the implementation of the risk mitigation process.

Lessons learned from inter-agency audits (decision 2011/22)

36. Since 2009, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the Office has both led and participated in inter-agency audits and has issued 18 inter-agency audit reports covering selected multi-partner trust funds, 'delivering as one', and the harmonized approach to cash transfers. The experience continued to show that inter-agency audits require significantly more time to plan, conduct and report than others, owing to the need for consultations and inputs from the internal audit services and management of participating organizations.

37. In 2016, the Office performed a meta-analysis of 'delivering as one' joint audits and reported the results to the Representatives. The analysis quantified and proved the costly and time-consuming nature of inter-agency joint audits. The Office plans to introduce measures to increase efficiency in the inter-agency joint audits in 2017, including more reliance on parallel audits rather than joint audits and improved risk-based selection and focus on the audit subject areas.

V. Follow-up to audit recommendations

38. The overall implementation rate of audit recommendations was 87 per cent as of 31 December 2016, slightly above the rate achieved in 2015 (85 per cent). The rate covered all reports issued by the Office from 1 January 2014 to 30 November 2016. There were 17 recommendations that had not been fully implemented for 18 months or more (see annex 3 for complete listing). This is a major improvement from 2015, when 50 recommendations were outstanding for 18 months or more. Recommendations from inter-agency audits were not included in the count of long-outstanding recommendations as the monitoring of the implementation of recommendations involved other United Nations organizations and thus normally require a longer implementation time.

39. Of the 17 recommendations, four (24 per cent) were ranked 'high priority'. Three of the 17 recommendations pertaining to the Office of Human Resources had been outstanding for at least 24 months. Five of those pertained to the UNDP offices in Guinea-Bissau, Argentina, Mauritania and Cuba (Global Fund grants), and the remaining nine were related to the headquarters audits of UNDP fast-track policies and procedures, the Legal Office, and travel management.

40. The implementation rate as of 31 December 2016 for recommendations raised in audit reports issued in 2016 was already at 54 per cent (higher than the 52 per cent reported as of 31 December 2015), indicating that immediate action was taken by management on the majority of audit issues raised by the Office.

VI. Review of audits of projects executed by non-governmental organizations and/or national governments

41. The Office reviews annual audits of nationally implemented UNDP projects executed by non-governmental organizations or national governments. The audits for fiscal year 2015 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. The audit reports were due for submission by 30 April 2016. As of 31 December 2016, the Office had received 894 audit reports, with eight audit reports still outstanding from the Islamic Republic of Iran, Iraq and Nicaragua. For the Islamic Republic of Iran, and Iraq, the projects could not be audited as those countries' governments would not allow private firms to conduct audits of their institutions. In the case of Nicaragua, the outstanding audits did not take place due to an earlier decision by the Government to suspend all programmatic activities until further notice.

Office of Audit and Investigations review results

42. Of the 894 reports received, the Office has reviewed 435 in depth, representing $1.4 billion in expenses (82 per cent of the audited expenses). In the majority of cases, the auditors of non-governmental organization/nationally implemented projects found that financial expenses were presented fairly, and issued an 'unqualified' opinion in respect of $1.6 billion (95 per cent) of the total $1.7 billion of audited expenses.

43. Review letters, drawing the attention of the country offices to areas requiring improvement, were issued to all 112 country offices that submitted audit reports. Eighty-one countries (72 per cent) received an overall 'satisfactory' rating from the Office for fiscal year 2015, compared to 82 per cent for fiscal year 2014; 23 countries (21 per cent) received 'partially satisfactory' ratings, compared to 14 per cent in 2014; and eight countries (7 per cent) received 'unsatisfactory' ratings in 2014, an increase from the 4 per cent reported for 2014 (see figure 9). The overall rating encompassed four elements: (a) strength of existing internal controls; (b) timely follow-up of audit recommendations; (c) compliance with audit scope requirements; and (d) timely administration of audit exercise. The 'unsatisfactory' ratings were due mainly to the materiality of the net financial

misstatement, inadequate follow-up of audit observations, and the severity of observations raised in the reports.

Figure 9. Results of assessment of the quality of audit reports of non-governmental organization/nationally implemented projects

	Overall rating			
	Fiscal year 2015 (Audits conducted in 2016)		*Fiscal year 2014 (Audits conducted in 2015)*	
Rating	Number of countries	%	Number of countries	%
Satisfactory	81	72	89	82
Partially satisfactory	23	21	15	14
Unsatisfactory	8	7	4	4
Total number of country offices	112	100	108	100

Key audit issues in non-governmental organization/nationally implemented projects and actions taken

44. The audit reports of non-governmental organization/nationally implemented projects that were reviewed in detail contained 1,430 issues, the majority of which (73 per cent) were ranked medium priority. Forty-nine per cent of the issues pertained to financial management.

45. The Office monitored the actions taken by the country offices to implement the audit recommendations and noted that, as of 31 December 2016, 81 per cent of the 1,430 audit issues had been adequately addressed.

Audit opinions and net financial misstatement

46. For the reports with modified opinions, the Office calculated the total net financial misstatement for fiscal year 2015 to be a net overstatement of $8.9 million, or 0.5 per cent over the total audited expenditure ($1.7 billion). This is slightly higher than in 2014 ($6.1 million). The net financial misstatement was due to modified opinions on 79 projects in 35 countries. The qualifications were due mainly to unsupported expenses (27 projects), ineligible expenses (17 projects) or incorrect recording of advances or expenses (15 projects).

Audit of harmonized approach to cash transfers

47. For financial year 2015, eight country offices (Bhutan, Cabo Verde, the Democratic Republic of the Congo, Indonesia, Morocco, Thailand, the United Republic of Tanzania, and Viet Nam), which follow the harmonized approach to cash transfer procedures, planned the required financial or internal control audits of implementing partners.

48. As of 31 December 2016, the Office had received 30 of the 49 audit reports planned and had completed the review of 21 audit reports. For the internal control reports, the auditors provided a 'satisfactory' rating for five reports and a 'partially satisfactory' rating for the remaining eight. For the financial audit reports, the auditors provided 'unqualified' opinions for seven and a 'qualified' opinion for one, with a net financial misstatement of $56,131.

VII. Investigations

49. During 2016, the Office opened 205 new cases and carried over 204 cases from 2015, bringing the 2016 caseload to 409.

50. The Office closed 233 of those 409 cases in 2016. At the end of 2016, 176 cases were carried over to 2017 (see figure 10).

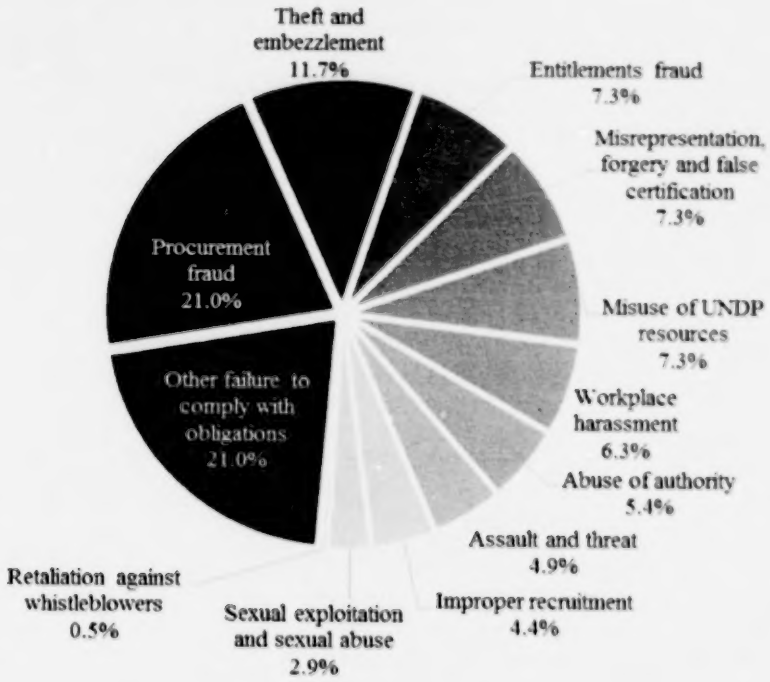
Figure 10. Office of Audit and Investigations caseload, 2015 and 2016

Caseload	2015	2016
Carry-over as of 1 January	162	204
Intake during the year	370	205
Total cases during the year	**532**	**409**
Closed (from cases carried over)	114	128
Closed (from intake)	214	105
Total closed	**328**	**233**
Carried forward as of 31 December	204	176

Types of complaints

51. Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of UNDP resources; misrepresentation, forgery and false certification; and entitlements fraud) constituted 54.6 per cent of the cases received by the Office in 2016, a 6.4 per cent decrease compared to the 61 per cent recorded in 2015 (see figure 11).

Figure 11. Types of complaints received in 2016


Theft and embezzlement 11.7%
Entitlements fraud 7.3%
Misrepresentation, forgery and false certification 7.3%
Misuse of UNDP resources 7.3%
Workplace harassment 6.3%
Abuse of authority 5.4%
Assault and threat 4.9%
Improper recruitment 4.4%
Sexual exploitation and sexual abuse 2.9%
Retaliation against whistleblowers 0.5%
Other failure to comply with obligations 21.0%
Procurement fraud 21.0%

52. Africa is the region from which the Office received the most complaints (60 cases) in 2016, followed by the Asia and the Pacific region (39 cases), Arab States (29 cases), Europe and the Commonwealth of Independent States (22 cases) and Latin America and the Caribbean (11 cases). The Office received seven cases from headquarters and 37 cases involving staff members or other personnel on UNDP contracts assigned to other United Nations organizations (see figure 12).

Figure 12. Cases received in 2016, by region

	No. of cases received
Africa	60
Asia and the Pacific	39
Other United Nations organizations	37
Arab States	29
Europe and the Commonwealth of Independent States	22
Latin America and the Caribbean	11
Headquarters	7
Total	**205**

Processing of cases

53. Of 233 cases that were closed in 2016, 75 (32 per cent of the cases finalized) were closed after an initial assessment. Of those 75 cases, 68 were closed because evidence of wrongdoing was insufficient to justify an investigation; because the allegations did not fall within the mandate of the Office; or because an investigation was not warranted. Seven cases were referred to other offices for appropriate action (see figure 13).

54. The remaining 158 cases were closed as a result of an investigation in which 66 cases (42 per cent) resulted in an investigation report establishing evidence of misconduct or other wrongdoing, an increase of 32 per cent over the total number of cases (50) closed with investigation reports in 2015. As one investigation report can be issued to close more than one case in instances of misconduct where there is more than one perpetrator, the 66 cases that were substantiated in 2016 resulted in the issuance of 60 investigation reports. The other 92 cases were found to be unsubstantiated and were closed after investigation (see figure 13).

55. At the end of 2016, 15 cases were still under assessment and 161 under investigation.

Figure 13. Disposition of cases

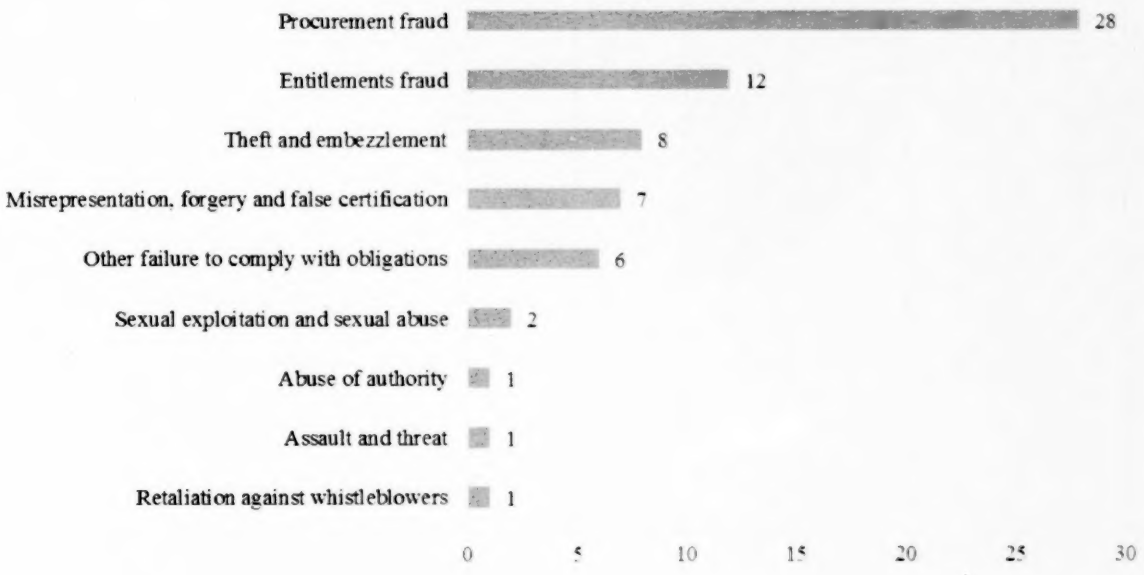
Actions taken	**No. of cases 2015**	**No. of cases 2016**
After assessment		
Closed, investigation not warranted	118	68
Referred to other UNDP offices	17	7
Total	**135**	**75**
After investigation		
Closed *(not substantiated)*	**143**	**92**
Closed *(substantiated)*		
- Submitted to Legal Office	13	23
- Submitted to country offices	16	13
- Submitted to Vendor Review Committee	15	25
- Submitted to other organizations	3	3
- Submitted to other UNDP offices	3	2
- Other investigation reports	-	-
Subtotal *(substantiated)*	**50**	**66**
Total cases closed after investigation	**193**	**158**

Total cases closed during the year	**328**	**233**
Investigation reports issued	**47**	**60**
Management letters issued	**31**	**15**

Substantiated cases

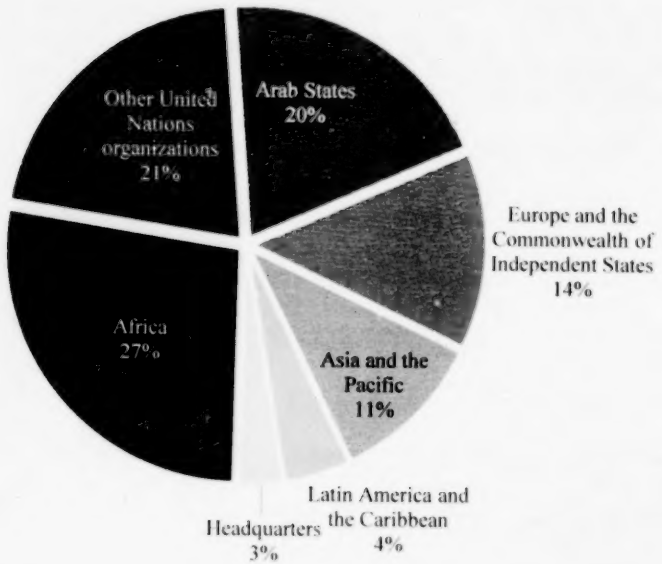
56. The misconduct identified in the 66 substantiated investigations was mostly procurement fraud (28 cases, or 42 per cent), entitlements fraud (12 cases, or 18 per cent), and theft and embezzlement (8 cases, or 12 per cent) (see figure 14). A summary of the substantiated investigations in 2016, by type of allegation, is included in annex 4.

Figure 14. Cases substantiated in 2016 by category



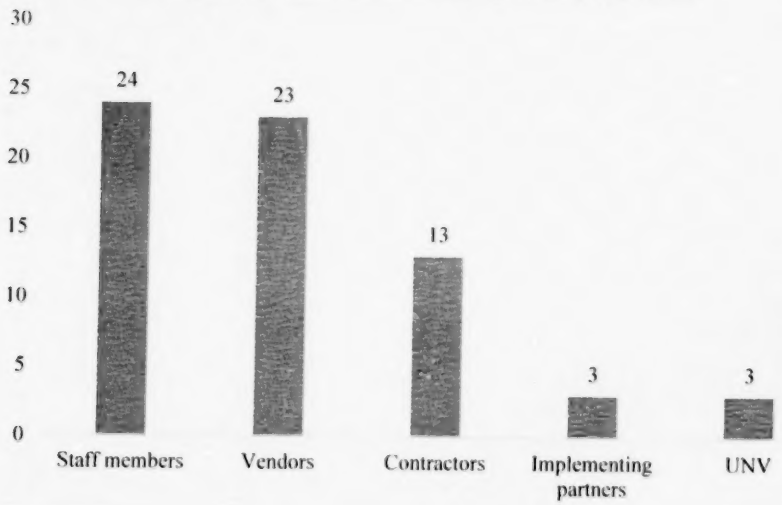
57. Of the 66 substantiated cases, 27 per cent occurred in the Africa region and 20 per cent in the Arab States region (see figure 15).

Figure 15. Cases substantiated in 2016, by region


Other United Nations organizations 21%
Arab States 20%
Europe and the Commonwealth of Independent States 14%
Africa 27%
Asia and the Pacific 11%
Latin America and the Caribbean 4%
Headquarters 3%

58. The 66 substantiated cases involved 24 staff members, 23 vendors (including an individual contractor), 13 contractors (service contract holders), three implementing partners, and three United Nations Volunteers (see figure 16).

Figure 16. Cases substantiated by contractual status



Management letters

59. In 2016, the Office issued 15 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators.

Financial losses and recovery (decisions 2014/21 and 2015/13)

60. The total financial loss for UNDP that was substantiated in investigation reports from the Office during 2016 amounted to approximately $1.46 million (see annex 4). The loss related to six cases of theft and embezzlement, including one Global Fund grant case, four cases of entitlements fraud and one case of misrepresentation, forgery and false certification. As of the date of preparation of this report, UNDP had recovered approximately $42,000 (2.9 per cent) of the loss identified. In addition, approximately $2.23 million was recovered in 2016 in seven cases reported in previous years. Part of that amount was not reported as loss during the respective reporting year as investigation reports had not been issued in three of these cases.

61. In 2016, a task force chaired by the Bureau for Management Services was established to look at the recovery of assets lost due to fraud and theft in recent years. The Office participated in the task force, which explored the challenges in asset recovery, as well as best practices and solutions, in order to increase the rate of recovery.

Actions taken in cases of misconduct (decision 2011/22)

62. Follow-up actions taken by other offices (the Legal Office, the Advisory Panel on Disciplinary Measures, the Ethics Office, country offices, the Vendor Review Committee and regional bureaux) in the cases substantiated by the Office are detailed below.

63. Based on the 23 investigation reports sent to the Legal Office concerning staff members in 2016, three staff members were dismissed. For five staff members who had separated prior to the completion of the investigation, a letter was placed in their file pursuant to Article 72 of the Legal Framework indicating that they would have been charged with misconduct had they remained employed with the organization. Two staff members were exonerated of misconduct and received a reprimand letter. The remaining 13 reports sent to the Legal Office were still under review at the end of 2016.

64. The Office submitted three investigation reports to the Advisory Panel on Disciplinary Measures concerning United Nations Volunteers. Based on those three reports, two United Nations Volunteers were dismissed. One report was still under review at the end of 2016.

65. The Office submitted one investigation report to the Ethics Office, which made its independent determination that the complainant had suffered retaliation and reported the matter to the Legal Office.

66. Of the 13 reports that the Office submitted to country offices, two service contract holders had their contracts terminated, while the contracts of five were not renewed. Five service contract holders had resigned prior to the finalization of the investigation. The remaining report was still under review by the country office at the end of 2016.

Other investigation reports

67. In 2016, the Office submitted 19 investigation reports (involving 25 cases) to the Vendor Review Committee. All 19 reports remained under review by the Committee at the end of 2016. One investigation report was submitted to another UNDP bureau in 2016. The Office submitted to the Legal Office four requests for referrals to national authorities in 2016, for transmittal to the Office of Legal Affairs of the United Nations Secretariat. As of 31 December 2016, the Office of Legal Affairs had referred one case to the national authorities.

Social and environmental compliance

68. The Social and Environmental Compliance Unit within the Investigations Section of the Office investigated two cases in 2016. In addition to those cases, the Unit continued to analyse complaints and inquiries from various external stakeholders.

VIII. Coordination within the United Nations system

69. As the chair of the United Nations Representatives of Internal Audit Services in 2015-2016, the Director of the Office of Audit and Investigations continued to lead the Representatives' activities, which included bimonthly 'virtual meetings'; consultations with the Bilateral Donors' Oversight Network; engagement supervisions on inter-agency joint audits; and the development and harmonization of audit tools and methodology.

70. In September 2016, the Office hosted the 2016 Representatives' annual meeting, where the working group session on engagement-level audit opinion concluded on a four-tier opinion, to be made available to participating organizations.

71. The Office continued to interact with Member States and counterparts to identify and share best practices, discuss matters of common interest, and promote cooperation with audit and investigation services in the United Nations system and other multilateral organizations. The Deputy Director and Head of Investigations, Office of Audit and Investigations, served as Vice-Chair for the United Nations Representatives of Investigative Services during 2015-2016. The Office is a member of the Secretariat of the Conference of International Investigators, and agreed in 2016 to co-host, with the United Nations Secretariat, UNICEF and UNFPA, its annual conference in New York in 2017. Planning and preparation work is under way.

IX. Advisory and other audit services

Advisory services

72. The Office continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, such as audit processes for non-governmental organization/nationally implemented projects and directly implemented projects and reporting, assessment for the harmonized approach to cash transfers, human resources processes, and information and communication technology policies. The Office regularly reviewed audit clauses in contribution agreements with donors, as requested.

73. In 2016, the Investigations Section continued to provide briefings to all UNDP regional bureaux and other offices, including the Bureau for Management Services, as well as to individual country offices, when required, on lessons learned from previous cases, with an emphasis on fraud prevention and early detection to mitigate the risk of fraud.

Audit and investigation services for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

74. Based on a two-year service agreement dated 6 December 2015 with the Executive Director of UN-Women, the Office continued to provide internal audit and investigation services to UN-Women in 2016. The Office has a dedicated UN-Women Audit Unit, with four posts fully funded by UN-Women. The internal audit and investigation activities of the Office in this regard are reported separately to the Executive Board of UN-Women.

X. Opinion

75. The Office provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework. In accordance with the UNDP oversight policy as part of the UNDP accountability framework (DP/2008/16/Rev.1), the United Nations Board of Auditors provides independent external oversight through audits of the UNDP financial statements and related financial procedures, accounting system, internal financial controls and administration, and the overall management of UNDP. The primary objective of the work performed by the United Nations Board of Auditors, as distinct from that of the Office of Audit and Investigations, is to express an opinion on UNDP financial statements.

76. Decision 2016/13 requires the Office to provide a rationale for the overall opinion presented in 2016, following its introduction in 2015 (decision 2015/13), based on the scope of work undertaken, and on the adequacy and effectiveness of the framework of governance, risk management and control framework of UNDP.

77. The opinion of the Office is based on the audit reports issued between 1 January and 31 December 2016, the majority of which covered UNDP activities in 2015. A summary of the audit work that supports the opinion is included in chapter IV of the present report, and the supporting criteria and the methodology used to form the audit opinion are described in annex 5. The risk assessment methodology of the Office, which increases the frequency of audits of high-risk entities, is described in chapter I.

78. Based on the scope of work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of the Office of Audit and Investigations that the elements of risk management and control covered in the audit reports issued in 2016 were, in aggregate, partially satisfactory, meaning that they were generally established and functioning but needed improvement. The 87 per cent implementation ratio of audit recommendations as at 31 December 2016 was above the target set in the UNDP integrated results and resources framework. This implementation rate gives comfort that, in general, appropriate and timely action is taken as and when improvements in the governance, risk and control mechanisms are necessary.